

SENATE RECORD VOTE ANALYSIS

104th Congress
1st Session

Vote No. 176

May 23, 1995, 3:45 p.m.
Page S-7197 Temp. Record

BUDGET RESOLUTION/EITC Spending Increase

SUBJECT: Senate Concurrent Budget Resolution for fiscal years 1996-2002 . . . S. Con. Res. 13. Exon motion to waive section 305 of the Budget Act for the consideration of the Bradley amendment No. 1122.

ACTION: MOTION REJECTED, 47-53

SYNOPSIS: As reported, S. Con. Res. 13, the fiscal year 1996 Concurrent Budget Resolution, will reduce projected spending over 7 years to balance the budget by fiscal year (FY) 2002 without increasing taxes. Savings that will accrue from lower debt service payments (an estimated \$170 billion) will be dedicated to a reserve fund, which may be used for tax reductions after enactment of laws to ensure a balanced budget. Highlights include the following: the rate of growth in Medicare will be slowed to 7.1 percent; Medicaid's rate of growth will be slowed to 5 percent and it will be transformed into a block grant program; the Commerce Department and more than 100 other Federal programs, agencies, and commissions will be eliminated; welfare and housing programs will be reformed; agriculture, energy, and transportation subsidies will be cut; foreign aid will be cut; defense spending will be cut and then allowed to increase back to its 1995 level; and Social Security will not be altered.

The Bradley amendment would provide that \$16.9 billion of the funds that will accrue in the reserve fund created by this resolution (approximately \$170 billion is expected to accrue) would be spent on the Earned Income Tax Credit program, as provided under current law. (The resolution provides that the fiscal dividend that will accrue may be used for revenue reductions (tax cuts); no other purpose will be permitted; if not used for revenue reductions, the funds will be used to further reduce the debt. The Senate later voted that the fiscal dividend shall, instead of may, be used for family tax relief and incentives to stimulate savings, investment, job creation, and economic growth (see vote No. 214)).

During debate, Senator Domenici raised the point of order that the Bradley amendment violated section 305(b)(2) of the Budget Act. Senator Exon then moved to waive section 305. Generally, those favoring the amendment favored the motion to waive; those opposing the amendment opposed the motion to waive.

NOTE: A three-fifths majority (60) vote is required to waive section 305.

(See other side)

YEAS (47)			NAYS (53)		NOT VOTING (0)	
Republicans (1 or 2%)	Democrats (46 or 100%)		Republicans (53 or 98%)	Democrats (0 or 0%)	Republicans (0)	Democrats (0)
Jeffords	Akaka	Inouye	Abraham	Helms	EXPLANATION OF ABSENCE: 1—Official Business 2—Necessarily Absent 3—Illness 4—Other SYMBOLS: AY—Announced Yea AN—Announced Nay PY—Paired Yea PN—Paired Nay	
	Baucus	Johnston	Ashcroft	Hutchison		
	Biden	Kennedy	Bennett	Inhofe		
	Bingaman	Kerrey	Bond	Kassebaum		
	Boxer	Kerry	Brown	Kempthorne		
	Bradley	Kohl	Burns	Kyl		
	Breaux	Lautenberg	Campbell	Lott		
	Bryan	Leahy	Chafee	Lugar		
	Bumpers	Levin	Coats	Mack		
	Byrd	Lieberman	Cochran	McCain		
	Conrad	Mikulski	Cohen	McConnell		
	Daschle	Moseley-Braun	Coverdell	Murkowski		
	Dodd	Moynihan	Craig	Nickles		
	Dorgan	Murray	D'Amato	Packwood		
	Exon	Nunn	DeWine	Pressler		
	Feingold	Pell	Dole	Roth		
	Feinstein	Pryor	Domenici	Santorum		
	Ford	Reid	Faircloth	Shelby		
	Glenn	Robb	Frist	Simpson		
	Graham	Rockefeller	Gorton	Smith		
	Harkin	Sarbanes	Gramm	Snowe		
	Heflin	Simon	Grams	Specter		
	Hollings	Wellstone	Grassley	Stevens		
			Gregg	Thomas		
			Hatch	Thompson		
			Hatfield	Thurmond		
				Warner		

Those favoring the motion to waive contended:

We should balance the Federal budget, but we should not do it on the backs of America's working families, and we should not allow the fruits of balancing the budget go only to rich Americans. Accordingly, we have proposed the Bradley amendment, which would increase by \$16.9 billion the amount that would be spent on the Earned Income Tax Credit (EITC) program, and which would be paid for out of the \$170 billion fiscal dividend that our Republican colleagues hope to use to give tax cuts to the rich. This increase is necessary because the budget resolution before us will cut \$20 billion out of the current spending projections for this program. Any way one slices it, that is a tax increase on poor Americans of \$20 billion. Thus, all we are doing with the Bradley amendment is telling our colleagues that they can keep \$150 billion of their tax cuts for America's wealthy, but they cannot have the additional \$20 billion that they wanted to get by increasing taxes on America's less fortunate citizens.

The EITC was created to help get families off of welfare and into the workforce. Social Security taxes and various means-tested programs create disincentives for welfare recipients to work. If one can make more money from Government welfare programs by agreeing not to work than one can make by being gainfully employed, then it is not at all surprising that many people choose to remain on the welfare roles. In 1975, when the EITC was created, the idea was to provide a refundable tax credit to low-income, full-time workers to help defray the unemployment effects of the Social Security payroll tax. Ever since, the program has had strong bipartisan support. President Reagan, for example, described the EITC as being "the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress." In 1993, Congress passed an expansion of the EITC that increased both benefit levels and eligibility. Roughly one-fourth of all families in America will be eligible for the EITC once the 1993 changes are fully implemented. Additionally, the 1993 changes made low-income workers without children eligible for EITC benefits.

In our view, the 1993 changes brought the program to where it should be. For instance, if a young couple with two children earn \$16,500 per year, they will be just above the poverty level and will not owe any income taxes. However, they and their employers will still have to pay \$2,525 in Social Security taxes. Under current law, this couple would receive an EITC tax credit of \$2,532. Under this Republican proposal, though, they would lose \$300 off their EITC tax credit. Over 7 years, this young family would lose \$2,100. Such a tax increase on struggling young families is cruel.

Senators who deny that lowering a refundable tax credit is the same as a tax increase are forgetting the original purpose of this program, which many of them strongly supported. We admit that most EITC recipients do not pay anything in income taxes, but the EITC is not meant to be a reduction in income taxes, it is meant to be a reduction in Social Security taxes and an incentive to stay off Federal welfare programs. After the 1993 changes are fully implemented, the EITC will adequately encourage Americans to choose work over welfare. At that point, the "explosive" growth in the program which our colleagues speak of will level off, and the only expected increases that occur will be due to inflation.

Many Senators have complained about the supposed rampant fraud in the EITC program. Their evidence is not convincing. For example, the recent, 1994 Internal Revenue Service study they have cited was from a low sample base that included only electronically filed returns, which may not be a representative base from which to draw. The other study they cited was from 1988. Since that time, steps have been taken to reduce abuses. Further, most of the mistakes found on returns have been exactly that--mistakes, rather than deliberate fraud. In any event, we do not think that using the rate of fraud or mistaken payments in any program is justification for cutting its funding. Instead, we think that the logical step should be to improve the program's operations to prevent mistakes and fraud.

Of the \$20 billion proposed Republican cut, the Bradley amendment would restore the \$12.8 billion that would come from reduced benefits for families, and would restore the \$4.1 billion that would come from cutting benefits for workers without children. We cannot accept these cuts. Hundreds of thousands of working Americans need EITC benefits to pay their electric bills, mortgages, and other bills. Often, these benefits mean the difference between work and welfare. Senators who agree with us that taxes should not be so high that Americans are discouraged from working should join us in supporting the motion to waive the Budget Act for the consideration of the Bradley amendment.

Those opposing the motion to waive contended:

Our colleagues are entitled to their own opinions but they are not entitled to their own facts. This budget resolution does not cut the EITC program; it only slows its astronomical rate of growth. Instead of climbing from \$28 billion in 1996 to \$36 billion in 2002, as currently projected, this resolution will "only" let spending climb to \$32 billion. "Spending" is the right word to use; the EITC operates primarily as a direct, means-tested, cash entitlement program for people who do not have any tax liability. Under this budget proposal, recipients will still get larger handouts than they do now; they just will not get quite as much more as Democrats want. Frankly, given the fraud, mismanagement, and questionable performance of this explosively growing program, limiting ourselves to a slowing of its rate of growth is the bare minimum that we should do.

When Democrats talk of past Republican support for the EITC program, they fail to mention exactly what Republicans were supporting. From 1976 to 1978, the maximum benefit anyone could receive was \$400. Through 1984 the maximum benefit was \$500, and through 1986 it was \$550. During these years the EITC operated with bipartisan support. In 1986, though, changes were enacted

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that started a decade of uncontrolled growth. By 1990, the maximum benefit had risen to \$953. Most of this amount went not to reduce tax liability, but to pay low-income families that had no tax liability at all. By 1993 the maximum benefit reached \$1,511. In 1993, Democrats, without a single Republican vote, expanded benefits even further, to a maximum payment of \$3,110 in 1995, and with that maximum benefit expected to grow to \$4,068 by 2002. With rising benefits, the program's total costs over the years of course also rose. In 1980, outlays were \$1.4 billion. In 1985, before the program's benefits began to rise uncontrollably, outlays had only risen slightly, to \$1.5 billion. By 1990, though, due to the 1986 changes, outlays had jumped to \$5.3 billion, and by 1995 they exceeded \$20 billion, which is more than is spent on Aid to Families with Dependent Children (AFDC). Starting in 1990, the yearly rates of growth in this program were 14 percent, 55 percent, 22 percent, 21 percent, 42 percent, and 18 percent. With the 1993 benefit increases, Democrats planned on increasing the total cost of this program to \$36.2 billion by 2002.

In drawing up this budget resolution, Republicans did not suggest paring this program back to its 1993 or 1986 size, nor did they propose a lowering of benefits, nor did they even propose a freezing of benefits. Instead, they proposed doing away with benefits for workers without children, in order to turn the program back into the family program it was originally intended to be, and they proposed lowering the rate of increase in benefits. Instead of seeing maximum benefits rise from the current \$3,110 to \$4,068 in 2002, recipients will see maximum benefits rise to \$3,560. Republicans are proposing an increase in the maximum cash transfer benefit of \$450, and Democrats are crying about a "tax increase."

One of the more interesting aspects of this debate is how it relates to Social Security. When the Social Security program is discussed, certain Senators like to describe it as an insurance program with contributors, and they also like to describe it as being steeply regressive. However, it is not regressive; it is progressive, and "contributions" are mandatory. Taxpayers, under penalty of law, must pay a fixed percent on their income up to a certain level. Benefits for lower-income individuals on their payments, though, are much greater than for middle-income individuals. Very high-income individuals are spared having most of their income taxed. Therefore, the net result is that Social Security is a steeply progressive system in which middle-income people pay for the retirements of lower-income people. The system has to be mandatory, because if it were voluntary middle- and upper-income taxpayers would not participate and it would fail. Still, the Social Security tax on lower-income people is a difficult burden to bear. Counting the portion that is paid by the employer (and we are pleased that our colleagues have admitted that the employer's portion is actually a tax on the employee's wages) low-income workers pay 15.3 percent of their income in Social Security taxes. This tax rate acts as a disincentive to work, considering that the Federal Government also provides generous welfare benefits to people who do not work. To make the Social Security burden more bearable, the EITC was enacted, with the intent of reducing the income tax burden on Americans. For the first 10 years, the EITC acted as a partial rebate for Social Security taxes that were paid by low-income workers. With the expansions that have occurred, though, the intention has been to offset entirely the Social Security tax burden. In effect, our colleagues want to make sure that low-income Americans pay their Social Security taxes and then get back checks for the full amount through the EITC's "negative" income tax. The illusion that they are contributing to Social Security will thus be preserved, when in reality middle-income Americans, who pay most of the taxes in America, will be picking up the tab through the EITC.

As we have already stated, though, we are not trying to change this arrangement. We are merely trying to slow down its implementation. Our main reason for slowing it down is to try to curb some of the abuses and mismanagement that have been plaguing it. In 1988, the IRS found that 42 percent of EITC recipients received too large a credit, and 32 percent were unable to show that they were entitled to any credit. In 1994, another IRS survey found that 29 percent of filers received too much money, and 13 percent of filers deliberately asked for too much. Other problems include that benefits are based only on earned income--some rich people, with millions of dollars in assets and unearned income--have legally been taking the credit. Reducing fraud, according to IRS Criminal Investigations Director Ed Federico, may be difficult. As he put it, "How can you prove that someone didn't work? It may be that we can't prove a negative." Given the huge increases in lump-sum benefits that are available, and given the difficulty in catching cheaters, it is not surprising that this program is plagued by fraud.

The final fact that Senators must keep in mind is that this program was intended to encourage people to work instead of receive welfare. The evidence seems to indicate that it has not worked. The number of people on welfare has not declined as EITC benefits have increased. Instead, the number of hours worked by EITC recipients has gone down as benefits have gone up. The appearance is that low-income workers use EITC benefits to supplant a portion of their income rather than as a supplement to their income. Perhaps, on more careful examination, Congress may find that this appearance is correct, and that too generous benefits are counter-productive.

Republicans have strongly supported the concept behind the EITC program in the past, and they are by no means ready to abandon it now. However, they are not about to join with Democrats in saying that any good program can be made better with more money, more money, more money. This program has problems, and they need to be fixed. We are not willing to allow it to continue growing uncontrollably. Therefore, we oppose the motion to waive.